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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE IMMEDIATE
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RUEKJCS/JOINT STAFF WASHDC IMMEDIATE
RUEHGV/USMISSION GENEVA IMMEDIATE 1596
RUEHVEN/USMISSION USOSCE IMMEDIATE 3651
RUCNDT/USMISSION USUN NEW YORK IMMEDIATE 3044
RUEHNO/USMISSION USNATO BRUSSELS BE IMMEDIATE
RUEHBS/USEU BRUSSELS IMMEDIATE
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL IMMEDIATE

C O N F I D E N T I A L SECTION 01 OF 02 BISHKEK 001282

SIPDIS

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TAGS: [ECON](#) [EFIN](#) [PREL](#) [PGOV](#) [KG](#)

SUBJECT: KYRGYZSTAN SEEKS \$1 BILLION IN LOANS

REF: BISHKEK 1145

Classified By: Ambassador Gfoeller, Reason 1.4 (b) and (d).

¶1. (C) SUMMARY. According to the IMF Resident Representative in Kyrgyzstan, Koba Gvenetadze, the Kyrgyz economy continues to grow, albeit slowly, while inflation is expected to reach approximately 15 percent in 2010. Gvenetadze is concerned about the management of the Kyrgyz Development Fund and about the still undefined 2010 budget. On the other hand, he believes that the government still has room for more borrowing. He noted that the IMF has decided to further increase its lending to Kyrgyzstan, and said the Kyrgyz are seeking a \$900 million loan from China for energy infrastructure. END SUMMARY.

¶2. (U) Emboff met with International Monetary Fund Resident Representative in Kyrgyzstan Koba Gvenetadze on November 19 to discuss the current economic situation and Kyrgyz government economic policy. Gvenetadze said that the IMF forecasts that Kyrgyzstan's GDP will grow by approximately three percent in 2010, though this depends upon a projected economic recovery in Russia and Kazakhstan, important trading partners for Kyrgyzstan and sources of substantial remittances from Kyrgyz working abroad. The IMF also expects the inflation rate in Kyrgyzstan to reach roughly 15 percent in 2010, more than double the previous projection of seven percent, due in large part to the government's recent announcement that electricity and heating prices will increase substantially in the coming year.

Kyrgyz Development Fund Concerns

¶3. (C) Gvenetadze said that the IMF had concerns with the way that the Kyrgyz government's Development Fund's assets were being managed. In early 2009, the Kyrgyz government received a \$300 million loan from Russia which it used to finance the Development Fund. To date, the Development Fund has made only one investment of \$33 million in the government's hydropower construction project, Kambarata 2. A local money manager with reported ties to the First Family, MGN, is managing the Development Fund's assets and has invested more than \$240 million in short-term Russian corporate bonds. Gvenetadze said the IMF was concerned that the investment in the Russian corporate sector was excessively risky. In response to the IMF's concerns, the

Development Fund agreed to transfer the money back into an account at the Kyrgyz Central Bank by December 31, when the securities mature. Kyrgyz government officials told Gvenetadze that they intend to then invest the money in Russian government bonds, which would hedge their risk because if the Russian government defaults on its bonds the Kyrgyz government would deduct any losses from the loan amount repaid to Russia.

Budget Revisions

14. (C) In meetings with Prime Minister Usenov and Finance Minister Sultanov on November 18, Gvenetadze was told that the Kyrgyz government had to revise its 2009 budget before the end of the year, and that the 2010 budget was also being revised and was not yet available. The 2009 budget needed to be revised to accommodate two changes. First, the Kyrgyz government wanted to pay its outstanding debt to Uzbekistan for natural gas. Gvenetadze was told that the Uzbeks had offered to sell Kyrgyzstan future gas at a lower price if the debt was repaid before the end of the year. The Kyrgyz government had hoped that the Kyrgyz gas company, Kyrgyzgas, would be sold to Gazprom, which would then work out a deal with the Uzbeks. However, Gazprom backed out of the agreement to purchase Kyrgyzgas. Second, the Kyrgyz government needed to spend more in the health sector to meet commitments it had made to international donors. Gvenetadze said he understood the reasons for changing the 2009 budget, but that he was more concerned about the lack of clarity on the 2010 budget, given that the Kyrgyz government's fiscal

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year begins on January 1.

Seeking \$1 billion in loans

15. (C) Kyrgyz government officials told Gvenetadze that they were seeking an additional \$1 billion in loans in 2010 and were in active discussions with the Chinese government regarding a \$900 million loan for energy infrastructure projects. The Kyrgyz state owned electricity companies would sign for the loans, with the Kyrgyz government providing a sovereign guarantee. The loan would be used for a variety of needed energy projects, such as new and upgraded electricity transmission lines and new meters. The terms of the loan under discussion would be favorable, with a 20 year payback, a five year grace period and two percent interest.

16. (C) The IMF plans to increase its lending to the Kyrgyz government in 2010 by \$20 million more than originally planned, raising its loans under the Exogenous Shocks Facility from \$100 million to \$120 million. However, according to Gvenetadze, the Kyrgyz government continues to seek an additional \$100 million of budget support from international donors. Gvenetadze said that the IMF might be willing to lend even more to Kyrgyzstan if necessary, and that Kyrgyzstan "has room to take on more debt."

GFOELLER